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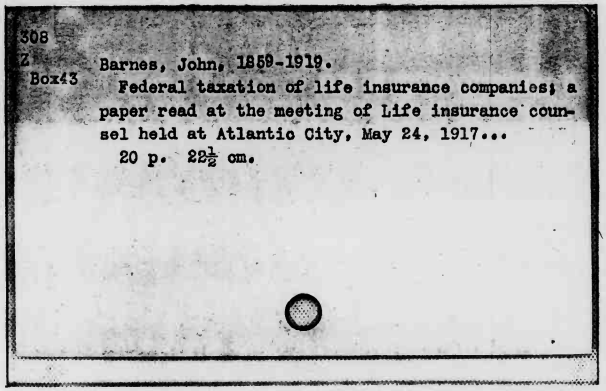
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FEDERAL TAXATION OF LIFE INSURANCE COMPANIES

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FEDERAL TAXATION OF LIFE INSURANCE COMPANIES

A Paper read at the Meeting
of Life Insurance Counsel
held at Atlantic City
May 24, 1917

By JOHN BARNES, Counsel
The Northwestern Mutual Life Insurance Co.

A 649

THE FEDERAL TAXATION OF LIFE INSURANCE COMPANIES

NEXT to the war probably the most serious problem confronting life insurance companies is that of taxation. Whatever may be said of the principle involved in taxing these corporations in the states in which they do business, the practice has become so well established that it would be a difficult matter to materially modify the existing order of things, no matter how illogical or vicious the principle might be.

In the case of the Federal Government the situation is different. During the years 1862, 1863, 1864 and 1898, Congress levied taxes of one kind or another on the business of life insurance. These Acts which were passed as war measures were soon repealed with the return of peace. In 1909 Congress abandoned a policy that had been pursued up to that time by enacting the corporation tax law, and making it applicable to life insurance companies. At this time the country was not at war and there was no apprehension that it would be in the immediate future. The 1909 Act as ultimately construed by the Treasury Department proved to be extremely onerous. As construed by the companies it was not, on the whole, very burdensome. In the three cases in which the law was construed by the courts the contention of the companies was substantially sustained. The decisions in these cases have not served to convince the government of the error of its way and it seems determined to force the other pending cases, or at least some of them, to trial.

The first Federal Income Tax Law was passed in 1913. It imposed a tax of one per cent. on net income. Under the exemptions and deductions allowed, I doubt if it was thought that this law would result in any considerable amount of tax on those companies that were operating under a substantially mutual plan of insurance. As construed by the companies, few of them returned very much taxable income. The Government seems to have acquiesced in the construction placed on the 1913 law by the companies until the early part of the present year, when it was an-

nounced that deductions made from gross income on account of deferred dividends paid during the year 1913, and subsequent years, could not be allowed and that it was proposed to assess additional taxes against the companies for these years. If such a re-assessment is upheld, most of the companies that wrote deferred dividend policies will be obliged to pay very substantial sums in the way of additional taxes for the years in question.

The 1916 Income Tax Act in effect doubled the amount of taxes which the insurance companies were called upon to pay under the law of 1913. The excuse or justification for the income tax laws referred to was that it was necessary to make up the decline in the revenue formerly obtained through customs duties, because of the reduction of our tariffs and the falling off in importations due to the war. This latter reason applied to the 1916 law only. The three acts referred to were in no sense war measures.

During the early part of the present year, an Act was passed imposing a tax of eight per cent. on net profits in excess of a certain sum. Whether mutual companies will be allowed to deduct $5,000.00 from net income and also eight per cent. on their surplus, and compute this excess tax on the balance, remains to be seen. Judging the future by the past I hesitate to say what the officials of the Treasury Department will do. There is some consolation in the reflection that their action is not final. This Act was passed to secure revenues to strengthen our military and naval defenses when the grim shadow of war was looming large on our horizon and may be fairly said to be a war measure.

At the time this paper is being written there is pending in Congress a measure which largely increases the normal tax imposed on life companies, increases the so-called excess profits tax from eight to sixteen per cent. and imposes a tax of eight cents on each $100.00 of insurance written after it becomes a law. In addition, it has certain retroactive features that still further add to the tax burden. This is put forth as a war measure. How long it will continue in force, if passed, after peace is established, remains to be seen.

This matter of Federal taxation of life companies, except in times of national stress, is of comparatively recent origin. The practice or policy has not received any such sanction as has the practice of taxing these companies in

the various states in which they do business. The tax imposed was small in most cases, although a few of the companies were required to contribute substantial sums. Nevertheless, a disposition has been shown in recent years to impose Federal taxes on life companies. If it is just and right that they should pay taxes, then the situation should be accepted gracefully. If it is not, it is the right and duty of the companies to use all legitimate means to keep our statute books clear of laws imposing such taxation, and it is not wise to wait until the habit of imposing a tax becomes fixed. The matter of securing the repeal of a tax law, once it has become a fixture, is nearly hopeless.

I do not care to dwell longer on the historical aspect of Federal taxation of life companies. Because of your familiarity with the law, the foregoing introductory statement might well have been made in more condensed form.

I propose to discuss the topic assigned me under the following heads:

(1) The reasons that exist for imposing a state tax which do not apply to a Federal tax.

(2) The reasons for and against the imposition of a Federal tax.

(3) The extent to which Federal taxation should be carried, if justifiable at all, and

(4) The means that should be employed to relieve life insurers from Federal taxation, if they are entitled to relief.

STATE VERSUS FEDERAL TAXATION

(1) Among the reasons urged in support of state taxation of life insurance companies are the following:

Such corporations are brought into existence by the grace of the state of their domicile; they are permitted to extend their operations into neighboring states as a matter of comity and not of right; their business is of such a character that it should be subjected to more or less expensive regulation; such business has in many instances been carried on in such a manner as to demand regulation in the interest of the policyholders and the public; insurance corporations control large aggregations of capital which is protected by the laws of the various states, and the courts are

open to them to enforce rights and redress and prevent wrongs.

None of these considerations exist in the case of the Federal Government except that occasionally controversies in which insurance companies are involved are settled in the United States courts. Insurance corporations are not creatures of Federal law; insurance is not commerce; it is not the subject of Federal regulation, and it cannot be regulated until the business is declared to be inter-state commerce. It is apparent, therefore, that there are some cogent reasons which tend to justify a state tax, which have no application to the general government.

The most persuasive remaining considerations urged in support of state taxation are that taxes must be imposed on those who have the ability to pay; that many people take life insurance as an investment; that a great deal of such insurance is carried by wealthy people; that there is no reason for differentiating in the matter of taxation between the person who invests his savings in life insurance and the one who invests them in a house and lot, or other tangible property, and finally and for good measure, it is said that the business is being conducted at an extravagant expense and that, therefore, the public might as well add a little more to the already excessive cost of carrying insurance. If it be assumed that the reasons stated justify a property tax it does not follow that they justify an income tax, which is the principal tax the general government imposes and the only one existing at the present time. The argument sometimes put forth about extravagance is, of course, entirely illogical. If the cost of insurance is excessive the way to deal with the question is to reduce the expense, not to increase it.

SHOULD A FEDERAL TAX BE IMPOSED

(2) The amount of level premium life insurance carried in the United States runs well up into the billions. The number of policyholders runs into the millions. The premiums paid into the companies run into the hundreds of millions annually. Considering the magnitude of the business, it is remarkable how few persons understand its nature, or the theory on which it is built up. This is almost as true of the educator and the professional man as it is of

the farmer or the mechanic. They know, or think they know, that if they pay a certain amount of premium, the company in which they are insured will pay to some one a stipulated sum of money at some time, and in the case of participating policies, if they believe the agents, they know that some portion of the premiums which they agree to pay will probably be refunded. Here their knowledge ends. Uncharitable as it may seem, I fear that there are congressmen to be found who are not well informed on this rather highly technical subject. Without realizing it, Congress has gone a long way toward conceding the principle for which I think we should contend, when it has exempted fraternal societies and some other corporations from the provisions of the income tax law. About 75% of the level premium life insurance carried is written in mutual companies. A large percentage of the remainder is written on practically a mutual basis.

Mutual insurance is not a gainful business, but one carried on for the purpose of distributing losses. In a correct sense, it is not productive, it adds nothing to the sum total of wealth, and is not carried on for profit. The principle underlying mutual insurance can be more easily understood by the average person, if fire insurance be first used as an illustration. If a thousand men have buildings each worth a thousand dollars, and none of them insure, and one of the buildings is destroyed, the entire loss falls on the owner, and a thousand dollars worth of property is wiped out of existence. If these thousand persons should unite and agree to contribute a dollar each to make good the destruction of the property of each of their number, and a fire should destroy one of the buildings, the loss would be precisely the same as in the other case, but the loss to the owner would be only one dollar, while the remaining $999.00 of loss would be distributed among those who composed the association. The loss remains constant but it is borne by a number of persons instead of falling on one. A proposition to add to this loss by taxing the contributions made would be illogical, if not ridiculous, and would not enlist much support in any quarter. The situation is precisely the same in the case of life insurance. Theoretically, death involves loss in all cases, and practically it does in most cases. Life insurance does not produce loss, but it does equalize it.

If a thousand persons should mutually agree to insure each other in this city today in the sum of $1,000.00 and to make an assessment sufficiently large to cover each death claim, we would have one of the simplest and at the same time one of the worst forms of life insurance. Those dying early would contribute practically nothing, while as to those who survived, the burden would soon become unbearable. Such insurance would be mutual so long as it existed, but it would be unsafe. If this same lot of individuals instead of providing for the payment of a specific sum agreed that for each person dying an assessment of a dollar a head should be levied on the survivors, we would still have mutual insurance, but an inequitable form of it, because the beneficiaries of those who contributed least would receive most. The last survivors would receive little and the last one nothing. I can hardly imagine one of our revenue officers taking a part of these contributions before they were paid, or waiting until they were turned over to the widow or beneficiary and insisting on a division.

Now if these same, or some other, thousand people should conclude that in the interest of solvency and true mutuality, it would be better to determine in some specific way as nearly as they could how much of a flat rate of premium invested at a low rate of interest it would be necessary to impose so as to pay each person at death the sum of $1,000.00, we would have a company that is as mutual as any of those mentioned, and more so, because true mutuality after all consists in fulfilling the obligation to the long lived who have made the greatest contribution to the fund as well as to those who died early. In each of the three cases last mentioned the purpose of the association is to distribute and equalize the loss occasioned by death, and this result is best accomplished by the third method suggested. These illustrations are intended to show in a homely way what mutual level premium life insurance is. It necessitates organization and the establishment of an agency force, but in the final analysis the members of the organization are equalizing and distributing between them the loss caused by death. Instead of the premium payments being paid to the beneficiary of a deceased member, they are paid to some officers of the organization; so much as is necessary to pay death losses is disbursed by such officers and the balance,

after expenses are paid, is invested for future use. Any excessive or redundant premium collected over and above the actual cost of carrying the insurance is refunded to the policyholder. Such companies are managed by officers selected by their policyholders, and every dollar of the assets of such companies belongs to the policyholders. There is no difference in principle between an association of this kind having a membership of a thousand, or of a hundred thousand, or a million. In the case of the larger company there are more death losses and they are distributed among a greater number of people.

When the Government taxes life insurance it stations its revenue collector at the door of the beneficiary and takes its "bit" from the contributions made for the purpose of distributing death losses. Every cent of taxes exacted is taken from the policyholder or his beneficiary. There is no other place it can come from, because the corporation not being organized for profit, there is no profit to draw on. The tax is a tax on a fund which is gathered for the purpose of paying losses and that only. When you tax such a fund, you are adding loss to loss. It is true that the reserves held produce an interest income, but when the level premium was fixed, this fact was taken into account, and it was made lower than it otherwise would have been because of this interest; hence, the interest is neither a profit nor a production. It is the increment from and part of a fund set aside to pay losses.

FRATERNAL VERSUS LEVEL PREMIUM INSURANCE

There is not, in my judgment, a single forceful argument that can be advanced for exempting fraternals that does not apply to level premium mutuals. The reasons put forth are mere piffle. They do not convince those who urge them, but they do serve a purpose. They are excuses, not reasons. The better managed fraternals charge rates that enable them to build up a reserve. They have large and constantly increasing funds for investment. The amount of fraternal business written runs into the billions and the number of certificate holders probably approximates the number of policyholders in old line companies. Insurance is their principal, if not their only business. The mem-

bership of the mutual and of the fraternal is drawn from practically the same walks of life. Both classes of companies are endeavoring to furnish insurance at cost, and neither is organized for profit or makes any profit, unless interest on investments is considered such. If it is, then both make profit. If it be conceded that a small percentage of those who take old line life insurance are wealthy and have considerable sums invested, this is no reason for imposing a tax on the great body of policyholders who take insurance for protection only. If any one is reached, it should be the individual policyholder who is taking the insurance for investment.

I know it is said that the fraternals are something more than mere insurance societies; that they are social and, to some extent, benevolent organizations, and that many of them are secret societies with rituals, pass-words, and other distinctive trimmings. If the Northwestern Company could avoid paying the twelve hundred thousand dollars which it now pays annually for taxes by sending out a series of grips and pass-words to its members, it would gladly do so, and it would provide a series of grips and any number of pass-words, if this would help matters along. When all is said and done, insurance is the main and principal business of the fraternals and the fact that they may have some incidental side lines is in itself no reason for exempting the main business.

I am not claiming that the fraternals should be taxed. On the contrary, I hold that they are very properly exempted from taxation. I further hold that the mutuals should be exempted for the same reasons that prompt the exemption of the fraternals. And when I refer to mutuals I include all those companies that are doing business on a substantially mutual plan. One of the most galling things to the taxpayer is unjust discrimination in the levy of taxes and I believe that the old line companies are being unjustly discriminated against.

What has been said about the fraternals is equally applicable to the mutual savings banks and building and loan associations, co-operative banks and mutual hail, cyclone and fire insurance companies, all of which are exempted under the present income tax law. I cannot imagine any good reason why a mutual fire insurance company should

escape taxation that does not apply to a mutual life company. The real reason for the discrimination is not a creditable one.

INEQUITY OF IGNORING THE INDIVIDUAL IN TAXING THE CORPORATE ENTITY

I think it is safe to say as to more than 90% of the persons insured in old line life companies that if they had set aside their premiums to create a self insurance fund, neither the fund nor the income from it would pay a cent of Federal Income Tax. I can see no reason why these individuals should fare worse because they deemed it wise to distribute all the losses between all of them than they would if each one undertook to carry his own. In one case it may be said that the corporate entity is being reached instead of the individual, but in the final analysis, it is the individual who is being taxed and who pays the tax. The individual who sought to build up a self insurance fund would be entitled to an exemption of $3,000.00 or $4,000.00, depending on whether or not he had a family. The income from his fund would be negligible. When, however, he pools issues with others and puts his money into a common fund for protection, the exemption is removed and the income derived from all contributors is added together and subjected to a tax. Considering the character of the business, this I think is obviously unfair.

The argument is sometimes used that the imposition of such a tax makes a good distribution of the tax burden. Certainly it does not make as good a distribution as did some of the laws that have been repealed. There is hardly any more justification for taxing life insurance companies than there is for taxing sugar. If there is, they should receive the same treatment that is accorded other corporations falling within the same class or category.

It should always be kept in mind that the great body of those who take life insurance consists of farmers, clerks, students, teachers, railway employes, carpenters, salesmen, and the like, and that many of them deny themselves the comforts and conveniences of life in order to keep up their insurance. Figures for the first nine months of 1916 show that of those who took insurance in the Northwestern 14.4% were farmers, 9% merchants, 6% office employes, 5.3%

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clerks in stores, 3.4% doctors, 2.9% lawyers, and 3% manufacturers. Teachers, students, salesmen, carpenters, railway employes, stationary engineers and plumbers, architects and draftsmen, telephone and telegraph operators, and clergymen make up the bulk of the remainder of the 36,407 persons who insured during this period. The average for a period of years would not differ materially from the figures above given.

PROPERTY ACCUMULATIONS OF LIFE COMPANIES

The statement is often made that life insurance companies own property running into the hundreds of millions of dollars, and the question is glibly asked: Why shouldn't they pay taxes as others do?

The question is not much of a poser. If a merchant has $10,000.00 due him from customers, and he owes a like sum to his creditors, it has, I think, invariably been the practice to offset debts against credits and pay a tax on the balance only, if any there was. A bank or trust company with a million dollars of capital and surplus may have a hundred millions of assets. Ninety-nine of these millions represent indebtedness to the depositors. There is no jurisdiction that I know of that would think of imposing a tax on a hundred millions of property against such an institution, nor a tax on any more than one million. Banking is a business engaged in for profit and the life insurance company is entitled to at least as much consideration in the matter of taxes as is the bank.

The moneys the insurance companies hold, they hold for their policyholders. Moreover the policyholders have the right to demand what is theirs whenever they see fit, and it must be paid. The most daring among the companies, I believe, have only protected themselves to the extent of reserving the right to postpone settlement for ninety days after demand.

It is true that the companies carry a small surplus over and above their reserve. In my judgment, there is no justification for piling up large sums for surplus. It should be sufficiently large to take care of unusual losses and fluctuations in the values of securities and there it should stop. I question whether if the companies were to go into voluntary liquidation, taking a reasonable time to wind up their business, there would be much surplus to divide when the reserve values were paid the policyholders. It might be well for the companies to quit talking about how rich they are, and tell how poor they are. They are not necessarily rich because they are large and hold the title to vast amounts of securities. The individual who owes nothing and has five dollars is as well off at least as the one who has a hundred dollars in property and owes ninety-five, and the latter is as well off as the one who has a thousand dollars worth of property, and owes nine hundred and ninety-five dollars. These figures might be extended indefinitely. Debts do not decrease unless they are paid, while assets may shrink and sometimes become worthless. Reserve values are debts due policyholders because of the payment of premiums and they are not debts that are demandable in the remote future either. Almost any industrial corporation whose assets and liabilities were so nearly equal as are the assets and liabilities of our insurance companies, if not considered insolvent, would at least not be considered a good financial risk by the money lender. The safety of the insurance company is due to the fact that it collects premiums in excess of the cost of insurance, which are customarily turned back to the policyholders, but which it has the right to retain, if necessity so requires. This margin is so large that a company can be perfectly safe and solvent without piling up a big surplus.

STATE IS BENEFITED BY LIFE INSURANCE

In the first place, life insurance tends to promote thrift, which is largely a matter of education and habit, after all. Thrift produces wealth and wealth fairly distributed is beneficial to the general public.

In the next place these small savings which might otherwise have been dissipated, have enabled insurance companies to loan large sums of money to aid in the development of lines of transportation which are and have been so essential to our comfort, our happiness, our prosperity and our growth.

More important still, they have been the means of relieving the state of vast burdens which it would have to shoulder in taking care of widows, orphans and dependents

whose only means of support was the wage earner who was prematurely called by death. It would be idle to speculate on the extent to which the state has been relieved of the burden of caring for indigents, by life insurance. There are few communities of any size in which numerous examples cannot be pointed out.

I know that this line of discussion may be met with the suggestion that other lines of endeavor are pursued which result in great benefit to the state and notwithstanding this fact they are taxed. Here I think a distinction can well be drawn between a business carried on for the purposes of gain and one that is not. If this consideration does not justify absolute exemption, it, at least, argues strongly for very moderate taxation. I hold that small savings should not be taxed any more when left for investment on the co-operative plan, than they are when invested by the individual.

A POSSIBLE EFFECT OF TAXATION

Insurance companies occupy a peculiar position. Their rates are fixed and as to existing contracts may not be changed. The major part of these contracts will run for many years. The states, or most of them, value all outstanding policies and require the companies to carry a reserve sufficiently large to cover the values so fixed. This reserve must be paid to the policyholder on demand. A tax might easily become so high that the fixed rate would not suffice to carry the reserve and pay the tax required by law. Thus, companies might be required by law to do something that the law rendered impossible. Of course, it might be said that the state would not levy such an onerous tax, but that does not answer the question. The right to levy a tax ordinarily carries with it the right to increase the tax. The life insurance companies are now placed in the same category as the manufacturers of munitions, and this is "going some."

AN INCOME TAX

If an income tax is to be imposed on the business of life insurance then the theory of the present law is as it seems to me unjust. Every one who is correctly informed concedes that theoretically and practically the policyholder pays the tax. This is true, whether the company be stock

or mutual, or the policy participating or non-participating. The tax, if one must be imposed, should be assessed against the individual policyholder and not the corporate entity. In this way each person would contribute in proportion to income received. The wealthy who carry large amounts of insurance for investment, would then pay as individuals such taxes as should be imposed on their income derived from life insurance, and those who took insurance for family protection and who were "short" on the world's goods would be relieved, as in all fairness, they should be. Presently, the distribution of the tax is unfair, as between policyholders.

The Federal Income Tax Law was passed under the provisions of the Sixteenth Amendment to the Federal Constitution, which empowers Congress "to lay and collect taxes on incomes from whatever source derived."

The term "income" is somewhat ambiguous inasmuch as it might mean "gross" or "net" income. The theory of all income tax, however, is to reach profits or net earnings. There is no relation between gross income and ability to pay, and such income forms no basis for the computation of any tax. The decided cases are fairly numerous and well nigh harmonious in holding that under such a provision as that contained in our constitution, the word "income" means net income and is synonymous with "profit." If this be correct then it follows that Congress cannot proceed to lay down an arbitrary method of determining how taxable income shall be arrived at and proceed to brand the balance found by pursuing this method "net taxable income." If that result shows figures that do not in fact represent "income" then Congress has transcended its constitutional power. I have already tried to show that mutual insurance companies make no profits. If there is any element of profit in the business, it is due to the fact that they receive interest on their investments. The amount of such interest should constitute the gross income they should be required to report, from which losses and other appropriate deductions should be made in order to arrive at the net or true income. Where Congress devises a scheme for finding net income that is arbitrary and incorrect, and then proposes to tax most of that income sixteen per cent., it is manifest that serious consequences may follow. It might not be out of

place to remark here that the Income Tax Act in form attempts to go no further than to impose taxes on "net" income.

THE WAR AS AFFECTING INSURANCE COMPANIES

We are entering on what has been the greatest war in history. It is not very probable that it will burn itself out in less than three years. This is simply a guess, but it is as good as any other guess that might be made under existing conditions. When the rates of premium that are being charged were fixed nothing was added for war hazard, because the companies exempted themselves from liability on account of such hazard. In the course of time, most of the companies deluded themselves into the belief that war as a means of settling grievances had become obsolete, and war clauses were eliminated from policy contracts because they were thought to be redundant and useless. Co-incident with the declaration of the existence of a state of war with Germany the companies awoke to the fact that the elimination of the war clause was a mistake and that they had laid themselves liable for deaths resulting from war without any compensation for the extra hazard. How much of an added burden this will be, no one can prophesy, but should the war drag out, the experiences of English and Canadian companies would indicate that it would be a severe one. The extra cost of coverage of the men at the front would in all probability amount to several times the normal premium. Certainly nothing should be done to impair the solvency of these great institutions. Hysteria in imposing taxes should be supplanted by common sense. The policy of hitting a head wherever you see it in this matter of taxation should not be resorted to and we should settle down to some scientific basis of taxation, in lieu of pursuing haphazard methods. Certainly it is no time to add to the burdens of the life insurance companies who may have all the load they can carry for some time to come. The abandon with which some of our statesmen propose to vote billions forms a marked contrast with our former "penny wise and pound foolish" policy of refusing to put our national defenses in anything like a state of adequate preparation. The country is rich enough to finance the war if given

a chance, but it is not rich enough to contribute billions over night in the way of enhanced taxation, without some one getting hurt.

In this discussion I have frequently alluded to mutual companies. I do not wish to be understood as claiming that stock companies should be treated any differently than mutuals, with the possible exception of that part of their income which is set aside for the exclusive use of the stockholders.

EXTENT TO WHICH FEDERAL TAXATION SHOULD BE CARRIED

(3) In normal times, life insurance companies should pay no taxes to the general government. In times of public stress it may be right and proper to impose a reasonable tax on them. We have a time of stress now, but the companies are facing extraordinary losses because of that stress, and it seems to me that the taxes which the government proposes to levy upon the business of life insurance are excessive and unreasonable.

CAN RELIEF BE SECURED FROM FEDERAL TAXATION

(4) I would have to answer this question by saying: I don't know, but I would add that it is worth while to try. If revenue officials and members of Congress were properly informed, I believe that no such tax would be imposed. If this belief is correct, then the obvious answer to the question would be to say: Yes, if a proper campaign of education is carried on before the practice of taxing these companies is firmly engrafted on our system for raising revenue. This matter of education, however, is not as easy as it might be. It is not a pleasant task to educate people over whom you have no control and who are not anxious to be educated. Most revenue bills originate with the Treasury Department and that Department is not apt to call into consultation those whom it proposes to tax. The practice of granting hearings on bills pending before congressional committees is not customarily followed, although hearings are sometimes permitted and even invited. When they are, they usually take place before a sub-committee composed of a very few members, and if their report is adverse to those

protesting, the case is well nigh hopeless. Congress has too many matters of moment pending before it to warrant any one in hoping to accomplish much by seeking personal interviews with individual members. They simply won't listen. While the war is on, any one going before those charged with the duty of raising revenue and presenting a feasible scheme for increasing the public revenue by taxation will receive a respectful hearing. Any one endeavoring to enlist the attention of these parties in furtherance of an attempt to be relieved from taxes will find himself pretty lonesome. He will learn that the man with whom he wants to talk has his busy day and that with each succeeding effort he becomes still more busy. If by the time the war is over and normal conditions are restored, the parties charged with the duty of cutting down war taxes should happen to be properly educated on the subject of life insurance, a great deal will have been accomplished.

My advent into the field of insurance work has been recent. I may be something of a tyro and an iconoclast. I realize that those who have grown old in the business may regard the suggestions I am going to make as upstart advice. But it is easy to drop into a rut and hard to get out. Habit grows on strong as well as on weak men, and, after all, it is not difficult for us to get out of touch with what is going on around us. Changes are taking place rapidly, and what might have been an honest and efficient method of dealing with adverse legislation ten years ago might be an inefficient method today. This leads me to the inquiry: Have we done our full duty to our policyholders? Home office officials have been alert and active in endeavoring to protect them, but it is often the case that the highest officials of an insurance company could not secure as good results as a ward politician. If we are going to properly educate those having to do with the imposition of taxes we should begin with the policyholder. The attitude of the policyholder to the company that insures him is at best neutral. He regards it as a far away iceberg that has no interest in him except to take his money, and that will be aggrieved when he dies that he did not live longer so it would get more money. The matter of personal touch is lacking. Of course, it is impossible for insurance officials to roam about and give the "glad hand" to

their policyholders. This is not necessary. The companies can advise their policyholders that they are looking after their interests and invite their co-operation. They pay twelve to fifteen millions a year in taxes. How many of our policyholders really know that these taxes are imposed and that they are the ones who in fact pay them? Are they not entitled as a matter of right to know this fact? Why should not the nature of insurance be explained to them from time to time in plain, simple, understandable language? Literature of this kind can be distributed at a nominal expense. Short talks to policyholders sent out with premium notices would do much to remove that feeling of remoteness between the insured and the insurer. Once policyholders have a feeling that the officers are working, not for themselves, but for those who carry insurance, some of them at least will cease to be indifferent to what happens to the companies.

I do not wish to speak unkindly of fraternal insurance, but I am within the truth when I say that in the past at least it needed regulation very badly, in the interest of safety. There is no efficient regulation that is general now. The reason is not difficult to divine. We can learn something from the fraternals. I don't believe that there is a law in the United States imposing obligations on fraternals that any reasonable man could justly criticize. If I were to name the influences that were most potent in shaping legislation, I should place the fraternals at the top of the list, or very close to it. They have simply shifted the burden of defeating adverse legislation on to their members, and their members have looked after their local legislators. There are, perhaps, more policyholders in life companies than there are certificate holders in the fraternals. We could not interest the policyholders to the extent that the fraternals can interest their members. But I think we can interest enough of them so that their voices will be audible and receive respectful attention. The process may be slow, but education is generally a slow process. One reason why a tax on life insurance companies is so popular is that it is an indirect tax. The company turns over the policyholder's money and inasmuch as he knows nothing about it, everything is serene. A careful reading of some of the state statutes would indicate that legislators in some

instances, at least, are not keen about having policyholders advised of how much tax they are paying. Taxes of this character beget extravagance. The taxpayer in a case of this kind, has a right to know what tax he is paying. The agent and hired man should tell his principal how he is spending his money. This matter of the companies taking their policyholders a little more into their confidence is not put forth as a discovery or a cure-all. It has occasionally been resorted to. I do not think that its possibilities have been developed as they should be. We should to some extent be students of human nature, as well as of mortality tables and such like. In a close district, the legislator often appreciates the logic of the homely argument of a few policyholders whom he knows, much more than he does the ornate sentences of the skilled rhetorician, who happens to be a stranger.

My purpose in preparing this paper has been to avoid technical discussion and to present some thoughts on the taxation of life insurance companies that should be impressed on the public, and to present them in such a way that the public would understand them, whether they agreed with them or not.

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